

ALLIED HOTEL PROPERTIES INC.**NOTICE OF MEETING****AND****MANAGEMENT INFORMATION CIRCULAR****FOR THE****ANNUAL MEETING
OF SHAREHOLDERS**

To Be Held
at 10:00 a.m. (Vancouver time)
Wednesday, June 9, 2004

**In the Innis Thompson Room, Delta Vancouver Suites
550 West Hastings Street
Vancouver, British Columbia**

ALLIED HOTEL PROPERTIES INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that an annual meeting (the "Meeting") of the holders ("Shareholders") of common shares ("Common Shares") of Allied Hotel Properties Inc. (the "Corporation") will be held in the Innis Thompson Room, Delta Vancouver Suites, 550 West Hastings Street, Vancouver, British Columbia on June 9, 2004 at 10:00 a.m. (Vancouver time) for the following purposes:

1. **TO RECEIVE** the Corporation's annual report, which includes the annual comparative audited financial statements of the Corporation for the financial year ended December 31, 2003, together with the auditors' report thereon.
2. **TO APPOINT** the auditors of the Corporation.
3. **TO AUTHORIZE** the directors to fix the auditors' remuneration.
4. **TO ELECT** directors for the ensuing year.
5. **TO TRANSACT** such further and other business as may properly come before the Meeting and any adjournments thereof.

A form of proxy solicited by management of the Corporation in respect of the Meeting is enclosed herewith.

A copy of the annual report of the Corporation for the year ended December 31, 2003 is enclosed.

Shareholders who are unable to be present at the Meeting are requested to sign the enclosed form of proxy and return it in the envelope provided for that purpose. To be effective, the form of proxy must be received at the offices of the Computershare Trust Company of Canada, Proxy Department, 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1 (fax within North America: 1-866-249-7775; outside North America: (416) 263-9524), not later than 48 hours (excluding Saturdays, Sundays and holidays) before the time of the Meeting (namely, by 10:00 a.m., Vancouver time, on June 7, 2004) or any adjournment thereof at which the proxy is to be used. The form of proxy may also be deposited with the chairperson of the Meeting on the day of the Meeting or at any adjournment thereof.

DATED at Vancouver, British Columbia, May 12, 2004.

BY ORDER OF THE BOARD

Michael Chan (signed)
MICHAEL CHAN
President

ALLIED HOTEL PROPERTIES INC.
MANAGEMENT INFORMATION CIRCULAR

SOLICITATION OF PROXIES

Solicitation of Proxies by Management

This management information circular (the "Circular") accompanies the notice of the annual meeting (the "Notice") for the annual meeting (the "Meeting") of the holders ("Shareholders") of common shares ("Common Shares") in the capital of Allied Hotel Properties Inc. (the "Corporation") to be held on June 9, 2004, and is furnished in connection with the solicitation of proxies by management of the Corporation for use at the Meeting, or at any adjournment(s) thereof, for the purposes set forth in the accompanying Notice.

This solicitation of proxies will be conducted by mail, but may be supplemented by telephone or other personal contact to be made, without special compensation, by officers or employees of the Corporation. The Corporation does not reimburse Shareholders' nominees or agents for the cost incurred in obtaining their principal's authorization to execute forms of proxy. The total cost of solicitation will be borne by the Corporation.

The principal executive office of the Corporation is Suite 300 - 515 West Pender Street, Vancouver, British Columbia, V6B 6H5. The registered and records offices of the Corporation are located at 400 Burrard Street, Suite 850, Vancouver, British Columbia, V6C 3A6.

Appointment of Proxyholder

The form of proxy accompanying this Circular is being solicited by the management of the Corporation. The persons named in the enclosed form of proxy are officers of the Corporation.

A registered Shareholder of the Corporation or, subject to applicable laws, an intermediary who holds Common Shares on behalf of a non-registered Shareholder, has the right to appoint an individual (who need not be a Shareholder) to attend and act for, and on behalf of, the Shareholder or intermediary at the Meeting other than one of the persons named in the accompanying form of proxy. A Shareholder or intermediary who does not wish to appoint either of the persons so named should strike out those names and insert, in the blank space provided, the name of the individual whom the Shareholder or intermediary wishes to appoint as proxyholder.

Execution of Proxy

A proxy will not be valid unless it is signed by the Shareholder or intermediary or by the Shareholder's or intermediary's agent duly authorized in writing or, if the Shareholder or intermediary is a company, under its seal or by an officer or agent thereof duly authorized. If a proxy is executed by an agent for a Shareholder or intermediary then the instrument empowering the agent, or a notarial copy thereof, must accompany the proxy.

Joint Holders

Where there are joint holders registered in respect of any Common Share, any one of the joint holders may vote at the Meeting, either personally or by proxy, in respect of the Common Share as if he were solely entitled to it. If more than one of the joint holders is present at the Meeting, personally or by proxy, the joint holder present whose name stands first on the register in respect of the Common Share shall alone be entitled to vote in respect of that Common Share. Several executors or administrators of a deceased member in whose sole name any Common Share stands shall be deemed joint holders.

Deposit of Proxy

Executed proxies must be deposited by hand or mail with Computershare Trust Company of Canada, Proxy Department, 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1 (fax within North America: 1-866-249-7775; outside North America: (416) 263-9524), not later than 48 hours (excluding Saturdays, Sundays and holidays) before the time of the Meeting (namely, by 10:00 a.m., Vancouver time, on June 7, 2004) or any adjournment thereof at which the proxy is to be used. The form of proxy may also be deposited with the chairperson of the Meeting on the day of the Meeting or at any adjournment thereof.

All non-registered Shareholders who receive these proxy materials through their broker or through another intermediary should complete and return the materials in accordance with the instructions provided to them by their broker or by that other intermediary.

Exercise of Vote by Proxy

Common Shares represented by properly executed proxies in the accompanying form (if executed in favour of management nominees and properly deposited prior to the Meeting) will be voted or withheld from voting in accordance with the instructions of the Shareholder on any ballot that may be called for and, if the Shareholder specifies a choice with respect to any matter to be acted upon at the Meeting, the Common Shares represented by such proxies will be voted accordingly. **If a choice is not specified, other than for the appointment of the auditors and the election of directors, the proxy will be voted on any poll in favour of such resolution.** The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice and with respect to other matters which may properly come before the Meeting. At the date of this Circular, the management of the Corporation knows of no such amendments, variations or other matters to come before the Meeting.

A vote cast in accordance with the terms of a proxy will be valid notwithstanding the previous death, incapacity or bankruptcy of the Shareholder or intermediary on whose behalf the proxy was given unless written notice of such death, incapacity, bankruptcy or revocation is received by the chairperson of the Meeting, as applicable, at any time before the vote is cast.

Revocation of Proxy

A Shareholder or intermediary may revoke a proxy before it is exercised by depositing an instrument in writing, executed by the Shareholder or by the Shareholder's agent duly authorized in writing or, where the Shareholder is a company, by a duly authorized officer or attorney of the company, at the registered office of the Corporation at 400 Burrard Street, Suite 850, Vancouver, British Columbia, V6C 3A6, at any time up to and including the last business day preceding the day of the Meeting or any adjournment(s) thereof at which the proxy is to be used, or by depositing the instrument in writing with the chairperson of the Meeting on the day of the Meeting or at any adjournment thereof and, in either case, the proxy is thereby revoked. A proxy may also be revoked in any other manner permitted by law.

VOTING SHARES AND PRINCIPAL HOLDERS

The authorized capital of the Corporation consists of an unlimited number of Common Shares without par value of which 106,327,268 Common Shares were issued and outstanding as of May 1, 2004. Each Shareholder is entitled to one vote for each Common Share shown as registered in his or her name on the list of Shareholders which is available for inspection at the Meeting. The directors have fixed May 7, 2004 as the record date for the Meeting. Accordingly, in accordance with applicable law, only Shareholders of record as of the close of business on May 7, 2004 are entitled to receive notice of and attend and vote at the Meeting, except that a transferee of Common Shares acquired after that date shall be entitled to vote at the Meeting if such transferee produces properly endorsed certificates for such Common Shares or otherwise establishes ownership of such Common Shares and has demanded not later than 10 days before the Meeting that the name of such transferee be included on the list of Shareholders entitled to vote at the Meeting.

As of May 1, 2004, to the knowledge of the directors and senior officers of the Corporation, no person beneficially owns, directly or indirectly, or exercises control or direction over securities carrying more than 10% of the voting rights attached to any class of voting securities of the Corporation except for the following:

Name	Type of Ownership	Number of Common Shares	Percentage of Class
Allied Holdings Ltd.	Direct	66,837,041	62.9%
Tradewinds (M) Berhad	Direct	15,712,000	14.8%

MATTERS TO BE ACTED UPON

Election of Directors

Directors are elected annually by the Shareholders and hold office until the next annual meeting of the Corporation. The size of the board of directors is currently determined at eight. Management has nominated and proposes that the following seven persons be elected as directors of the Corporation to hold office until the conclusion of the next annual meeting of the Corporation unless earlier vacated in accordance with Articles of the Corporation.

Name, Municipality of Residence and Present Position with the Corporation	Present Principal Occupation	Director Since	Common Shares Owned ⁽¹⁾
Peter Y. L. Eng ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾ Vancouver, British Columbia Chairman, Chief Executive Officer and Director	Chairman, Allied Holdings Ltd., a real estate company	October 21, 1999	1,000
Syed Abu Bakar bin Syed Mohsin Almohtdar ⁽²⁾ Malaysia Director	Managing Director, Tradewinds (M) Berhad, an investment holding and management company	May 21, 1997	-
Michael Chan ⁽³⁾ Richmond, British Columbia President and Director	President, Allied Hotel Properties Inc.	September 1, 2003	1,000

Name, Municipality of Residence and Present Position with the Corporation	Present Principal Occupation	Director Since	Common Shares Owned ⁽¹⁾
Anthony Y.L. Eng ⁽³⁾ Vancouver, British Columbia Director	President, Allied Holdings Ltd., a real estate company	October 21, 1999	2,000
Dato' Eng Tee Ng ⁽²⁾⁽⁵⁾⁽⁶⁾ Malaysia Director	President, C.T. Management Corporation, a real estate company	December 12, 1985	7,858,000 ⁽⁷⁾
Eric Woo Vancouver, British Columbia Director	Chief Information Officer, Allied Holdings Limited, a real estate company; Executive Director, Imperial Hotel Management College Incorporated, a hotel training school	November 18, 2003	500
Francis A. Wong ⁽²⁾ Indian Wells, California Director	Chairman and Chief Executive Officer, Genesis Hotel Development LLC, a hotel consulting company	April 26, 2004	-

Notes:

- (1) Information as to Common Share ownership has been provided by the nominees.
- (2) Member of Audit Committee.
- (3) Member of Executive Committee.
- (4) Member of Compensation Committee.
- (5) Member of Nominating Committee.
- (6) Member of the Corporate Governance Committee.
- (7) Common Shares owned by C.T. Management Corporation, a company controlled by Dato' Eng Tee Ng.

Appointment of Auditors

Management proposes that KPMG LLP, first appointed auditors of the Corporation on October 7, 1999, be re-appointed as auditors of the Corporation at a remuneration to be fixed by the board of directors of the Corporation.

CORPORATE GOVERNANCE

The Board of Directors reviews, evaluates and modifies its governance program to ensure it meets the TSX Venture Exchange corporate governance disclosure guidelines. A discussion of the Corporation's governance procedures compared with these guidelines is found in Schedule A.

STATEMENT OF EXECUTIVE COMPENSATION

Compensation of Executive Officers

Set out below are particulars of compensation paid to the individuals who were, as at December 31, 2003 or at any time during the financial year, the Chief Executive Officer and the other three most highly compensated executive officers of the Corporation, or any of its subsidiaries whose total salary and bonus exceeds \$100,000 and the Chief Executive Officer (the "Named Executive Officers").

Summary Compensation Table

The following table is a summary of compensation paid to the Named Executive Officers for each of the Corporation's three most recently completed fiscal years.

Name and Principal Position	Year	Annual Compensation			Long Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other (\$)	Awards		Payouts	
					Securities Under Options (#)	Restricted Shares (\$)	LTIP Payouts (\$)	
Ronald Erdman ⁽¹⁾ Former President and Chief Executive Officer	2003	107,106	-	-	-	-	-	-
	2002	180,415	-	-	-	-	-	-
	2001	169,752	-	-	-	-	-	-
Peter Y. L. Eng ⁽²⁾ Chairman and Chief Executive Officer	2003	30,000	-	-	-	-	-	-
	2002	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2001	N/A	N/A	N/A	N/A	N/A	N/A	N/A
John R. Ellen Vice President, Finance, Chief Financial Officer and Corporate Secretary	2003	110,199	-	-	-	-	-	-
	2002	106,706	-	-	-	-	-	-
	2001	116,271	-	-	-	-	-	-
Sam Ng Vice President, Hotel Development	2003	116,750	-	-	-	-	-	-
	2002	119,843	-	-	-	-	-	-
	2001	117,218	-	-	-	-	-	-
Alnasir Rajan Vice President, Hotel Operations	2003	94,526	-	-	-	-	-	-
	2002	100,461	-	-	-	-	-	-
	2001	91,140	-	-	-	-	-	-

Notes:

- (1) Ronald Erdman resigned as President and Chief Executive Officer of the Corporation effective August 31, 2003.
(2) Peter Y. L. Eng was appointed Chief Executive Officer of the Corporation effective September 1, 2003.

Composition of the Compensation Committee

During the fiscal year ended December 31, 2003, Senator Jack Austin, Ronald G. Erdman and Peter Eng, directors of the Corporation, comprised the Compensation Committee. Ronald G. Erdman resigned as a director and a member of the Compensation Committee on November 28, 2003. Senator Jack Austin resigned as a director and a member of the Compensation Committee on December 12, 2003. As of December 31, 2003, Peter Eng was the sole member of the Compensation Committee. Peter Eng is also a member of the Compensation Committee of Allied Pacific Properties and Hotels Ltd., a reporting issuer affiliated with the Corporation.

Report on Executive Compensation

The Compensation Committee of the Board has responsibility for establishing and reviewing the compensation of executive officers. The Compensation Committee is responsible for the review of human resource planning, the assessment of performance of the senior officers on an annual basis, and review and recommendations to the Board concerning compensation of senior officers. The Compensation Committee shall also make recommendations to the Board with respect to the Corporation's stock option plan and stock option grants under the plan.

The Corporation's compensation packages for its executive officers, including the Chief Executive Officer, consist of base salary and stock option grants. The Corporation has emphasized cash compensation for its executive

officers. The Corporation did not grant any stock options in fiscal 2003. No specific awards were provided to any senior officers under a performance-based plan. The Corporation's compensation packages for the Chief Executive Officer and Names Executive Officers have been based on several criteria, including individual performance and contribution of the senior officer, responsibility, years of service and experience. Base salaries are set at the minimum levels believed by the Compensation Committee to be sufficient to attract and retain qualified individuals. Salaries are adjusted to recognize varying levels of expertise, responsibilities, experience, and annual rates of inflation. Furthermore, the Compensation Committee reviews salaries paid to senior officers of other companies focused in the lodging and hospitality industries in Canada to ensure salary levels remain competitive within the market.

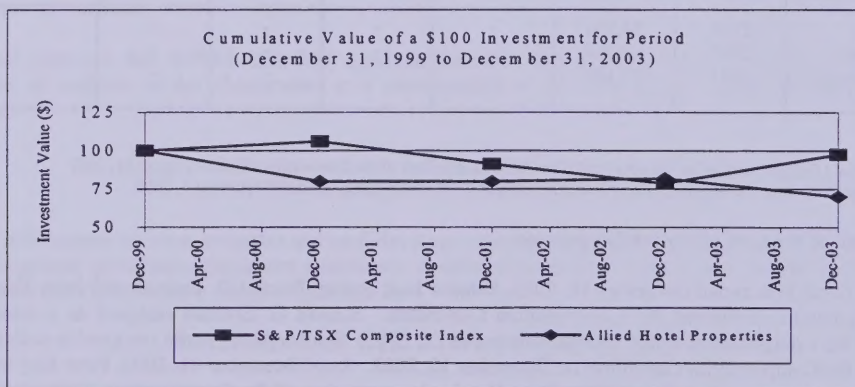
The Compensation Committee reviews the Chief Executive Officer's salary and any grants under the Corporation's stock option plan on an annual basis. There are no specific quantitative performance-based factors upon which the compensation of the Chief Executive Officer is measured. The compensation of the Chief Executive Officer is based on comparison with compensation of Chief Executive Officer's of Canadian hotel companies, adjusted for size of asset base and gross revenues amongst other criteria, the Corporation's Common Share price, the Chief Executive Officer's responsibilities, and the successful performance of his duties as set forth by the Board.

The Committee may address long-term compensation by granting stock options to purchase Common Shares of the Corporation to executive officers from time to time.

Report submitted by the Compensation Committee: *Peter Y.L. Eng*

Performance Graph

The following graph shows changes over the period from December 31, 1999 to December 31, 2003 in the value of \$100 invested in (1) the Common Shares of the Corporation, assuming re-investment of distributions, shown as "Allied Hotel Properties" on the graph and (2) the S&P/TSX Composite Index.



Compensation of Directors

Each director is paid an annual directors' fee of \$5,000 for their services as directors of the Corporation. In addition, a fee of \$500 is paid to each director for their attendance at meetings of the Board or at meetings of the various committees of the Board.

During the 2003 financial year, consulting fees of \$68,750 were paid to Socony Financial Corporation, a company controlled by Andrew E. Saxton, a former director and the former Deputy Chairman of the Board. Andrew Saxton resigned as a director of the Corporation on April 29, 2003.

INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS

Other than “routine indebtedness” as that term is defined in applicable securities legislation, no director or senior officer of the Corporation or associate or affiliate of any such director or senior officer is or has been indebted to the Corporation since the beginning of the last completed financial year of the Corporation.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of the insiders of the Corporation, nor any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of such insider or proposed nominee, has any direct or indirect material interest in any transaction since the commencement of the Corporation’s last financial year or in any proposed transaction which materially affected or would materially affect the Corporation or any of its affiliates.

MANAGEMENT CONTRACTS

There are no management functions of the Corporation which are, to any substantial degree, performed by a person other than the directors or senior officers of the Corporation or a subsidiary.

OTHER BUSINESS

Management of the Corporation knows of no matters to come before the Meeting other than the matters referred to in the Notice. However, if matters not now known to management should come before the Meeting, the Common Shares represented by proxy solicited by management will be voted on each such matter in accordance with the best judgment of the nominees voting the proxy.

Unless noted otherwise, the information contained herein is given as of May 1, 2004. The contents of this Circular and the mailing thereof to Shareholders have been approved by the board of directors of the Corporation.

Dated at Vancouver, British Columbia, May 12, 2004.

By Order of the Board of Directors

Michael Chan (signed)

Michael Chan
President

SCHEDULE A

ALLIED HOTEL PROPERTIES INC. CORPORATE GOVERNANCE COMPLIANCE TABLE

The following table sets out the corporate governance practices of the Corporation with respect to the TSX Venture Exchange Guidelines. References to the “Board” refer to the board of directors of the Corporation.

Guidelines	The Corporation’s Governance Procedures
1. The Board should explicitly assume responsibility for the stewardship of the Corporation, including:	The role of the Board is to oversee the conduct of the Corporation’s business. The Board delegates to management the authority and responsibility for the daily conduct of the business affairs of the Corporation.
(a) adoption of a strategic planning process and approval of a strategic plan which takes into account, among other things, the opportunities and risks of the business	The Board has approved the core-business principles for the operation of the Corporation, as developed by senior management.
(b) identification of the principal risks of the Corporation’s business and implementation of appropriate systems to manage these risks	The Board has, with input from senior management, identified the principal risks of the Corporation’s business. At least one Board meeting per year is conducted for the purpose of dealing with strategic planning and risk assessment. There are informal systems to manage these risks.
(c) succession planning, including appointing, training and monitoring senior management;	The Board has delegated responsibility for the system of succession planning, including appointing, training and monitoring senior management to the Compensation Committee of the Board. All appointments of senior management are approved by the Board.
(d) the Corporation’s communications policy; and	The Corporation communicates with its shareholders through statutory filings and mailings, press releases, and shareholders’ meetings and other methods as appropriate. In addition to annual meetings, other meetings are held from time to time with shareholders, various investors, investment analysts, credit rating agencies and investment institutions. Shareholder inquiries are directed to and dealt with by senior management.
(e) integrity of the Corporation’s internal control and management information systems.	The Board has delegated responsibility for the integrity of the Corporation’s internal control and management information systems to the Audit Committee of the Board.
2. The Board should be constituted with a majority of individuals who qualify as unrelated directors.	The Board currently comprises seven directors. Of the seven directors in total, there are currently four unrelated directors on the Board.
3. The Board shall disclose the analysis of the application of the principles supporting the conclusion in guideline 2 above, including the composition of the Board, basis of determining whether a director is unrelated and representation of shareholder interests.	Those directors who hold management positions with the Corporation and those with business relationships with the Corporation, exclusive of their position on the Board and interests as shareholders were deemed to be related directors. Accordingly, Syed Abu Bakar bin Syed Mohsin Almohdzar, Dato’ Eng Tee Ng, Eric Woo and Francis A. Wong were deemed to be unrelated.

Guidelines	The Corporation's Governance Procedures
4. The Board should appoint a committee of directors composed exclusively of outside directors, a majority of whom are unrelated directors, with the responsibility for proposing to the full Board new nominees to the Board and for assessing directors on an ongoing basis.	The Corporation has established a Nominating Committee for the purposes of nominating new directors to the Board and for assessing directors on an ongoing basis. During the 2003 financial year, the Nominating Committee was comprised of two unrelated directors and one related director. Ronald G. Erdman resigned as a director and a member of the Nominating Committee on November 28, 2003. Currently, the Nominating Committee is comprised of one unrelated director and one related director.
5. The Board should implement a process to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors.	The Nominating Committee evaluates the effectiveness of the Board, committees and individual directors. The committee assesses the operation of the Board and the committees, the adequacy of information given to directors, communication between the Board and management and the strategic direction and processes of the Board and committees. The committee recommends changes to enhance the performance of the Board based on the survey feedback.
6. Existence of an orientation and education program for new recruits to the Board.	The Corporation has a variety of orientation and education programs in place for current and new directors. All new directors receive a Board Manual containing a record of historical public information about the Corporation and other relevant corporate and business information. Senior management makes regular presentations to the Board on the main areas of the Corporation's business. Directors are encouraged to take professional development courses at the Corporation's expense.
7. The Board should review its size and implement a program to establish a Board size which facilitates effective decision-making.	The Board reviews the contributions of the directors and considers whether the size of the Board promotes effective decision-making, provides sufficient directors to carry out its duties efficiently while presenting a diversity of views and experience. The Board considers that its current size and composition meet these requirements. The Board has currently appointed an Audit Committee, an Executive Committee, a Compensation Committee, a Nominating Committee and a Corporate Governance Committee.
8. Adequacy and form of the compensation of directors that realistically reflects the responsibilities and risk involved in being a director.	The Board has delegated responsibility for the review of compensation of directors by the Compensation Committee of the Board. In determining directors' remuneration, the committee considers, among other factors, time commitment and risks and responsibilities.
9. Committees of the Board should generally be composed of outside directors, a majority of whom are unrelated directors.	<p>The Corporation currently has five committees of the Board:</p> <ol style="list-style-type: none"> 1. The Audit Committee comprises three unrelated directors. 2. The Compensation Committee comprises one related director. 3. The Executive Committee comprises three related directors. 4. The Nominating Committee comprises one unrelated director and one related director. 5. The Corporate Governance Committee comprises one unrelated director and one related director.

Guidelines	The Corporation's Governance Procedures
10. The Board (or a committee of the Board) should be responsible for developing the Corporation's approach to governance issues, including the TSX Guidelines.	The Corporate Governance Committee is responsible for reviewing the overall governance principles of the Corporation, recommending any changes to these principles, and monitoring their disclosure. This committee is responsible for the statement of corporate governance practices included in the Corporation's information circular. During the 2003 financial year, the Corporate Governance Committee was comprised of two unrelated directors and one related director. Ronald G. Erdman resigned as a director and a member of the Corporate Governance Committee on November 28, 2003. Currently, the Corporate Governance Committee is comprised of one unrelated director and one related director.
11. The Board should develop, together with the CEO, position descriptions for the Board and for the CEO, including the definition of the limits to management's responsibilities. In addition, the Board should develop corporate objectives for which the CEO is responsible for meeting and assess the CEO against these objectives.	Position descriptions for the Board and for the CEO are reviewed on an annual basis, both by the Board and the Compensation Committee. Responsibilities of the Compensation Committee include review and recommendations to the Board concerning compensation of the Corporation's senior officers and Board members. The CEO's objectives are reviewed annually by the Compensation Committee. The Board expects the CEO and senior management of the Corporation to report on the business and affairs of the Corporation at each meeting of the Board.
12. The Board should implements structures and procedures to ensure that the Board can function independently of management, including:	
(a) appointing a Chair who is not a member of management or appointing an outside director as lead director; and	Peter Eng, who is a member of management and is a related director, is the Chairman of the Board.
(b) meetings of the Board without management present.	The Board may meet without management present as and when required.
13. (a) The Audit Committee of the Board should be composed of only unrelated directors. All members of the Audit Committee should be financially literate and at least one member should have accounting or related financial expertise, as determined by the Board.	The Audit Committee of the Board is comprised of three unrelated directors. All members have accounting or related financial expertise by virtue of their current or former positions as directors and executive officers of other corporations whether private or publicly-traded.
(b) The Audit Committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate.	Through an informal procedure, the Audit Committee has absolute authority to communicate directly with the Corporation's auditors to discuss and review specific issues as appropriate. The Audit Committee reviews, with the Corporation's auditors and management, the Corporation's financial reporting practices, procedures and internal controls and reviews the Corporation's audited financial statements prior to their submission to the Board for approval.
(c) The Audit Committee's duties should include oversight responsibility for management reporting on internal control and should ensure that management has designed and implemented an effective system of internal control.	The Audit Committee meets at least annually with management and the external auditors to review the Corporation's financial statements, financial reporting practices, procedures and internal controls.

Guidelines	The Corporation's Governance Procedures
14. The Board should adopt a charter for the Audit Committee which sets out the roles and responsibilities of the Audit Committee should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties.	<p>The Board has adopted terms of reference for the Audit Committee which generally include:</p> <ol style="list-style-type: none"> 1. the review and recommendation for approval by the Board of publicly disclosed financial information prior to approval by the Board and to its release to the public; 2. the review and assessment of the effectiveness of management's policies and practices concerning financial reporting; 3. the review and monitoring of management's internal control procedures and assessments of the adequacy and effectiveness of internal controls over the accounting and financial reporting systems within the Corporation; and 4. consideration of the external auditor and audit procedures.
15. Existence of a system which enables an individual director to engage an outside adviser at the expense of the Corporation in appropriate circumstances.	Generally, there is an informal procedure which enables an individual director to engage an outside adviser at the expense of the Corporation upon request at a meeting of the Board.

A Message to Our Shareholders

At the end of 2002, the Company was looking forward to improvement in the operating performance of its hotel portfolio in the wake of geopolitical uncertainty. However, as the incidence of Severe Acute Respiratory Syndrome, or SARS, became more prevalent in Canada during 2003, it became evident that forces beyond the control of the Company would once again negatively impact the hotel operations of the Company as they would the hospitality industry globally. Along with SARS, other events affecting travel throughout Canada during 2003 have been well publicized, including the outbreak of mad cow disease in Alberta and the forest fires in British Columbia. All of these events have resulted in the weakening of demand for lodging and conference facilities in those markets in which the Company operates, and it was inevitable that the financial performance of the Company would be affected.

As a result, room revenues in the Company's hotel portfolio decreased in 2003 by over \$4 million from the prior year, which is reflected in the decrease in the gross operating profit and funds from operations. Revenue per available room decreased 13% in 2003, resulting from a decrease of 4.2 percentage points in occupancy and a decrease in the average daily rate by 6.2% across the portfolio. The Company's majority shareholder has provided ongoing financial assistance to support the operations of the Company during these challenging times.

In spite of the events of 2003, there are signs of recovery in the hospitality industry in 2004. Corporate and leisure travel is expected to rise as the SARS virus appears to have been contained. Further, with the continued barriers to entry in the development of hotels comparable to those of the Company, together with the strengthening Canadian economy, we should begin to see a return to strong hotel fundamentals that would allow for improved occupancy rates and average daily rates.

For 2004, our goal continues to be to maximize returns in the provision of hotel and hospitality services within the hotel portfolio. We have now fully internalized management of the portfolio, with a view to streamlining costs and creating operating efficiencies. We will also continue to explore the additional real estate development opportunities that exist in some properties where the available buildable density has not been fully utilized.

Many thanks to our valued employees for their outstanding service to our guests and their loyalty to our Company. We thank our shareholders for their continuing support and remain committed to our efforts to maximize shareholder value in the years ahead.

Peter Y.L. Eng (signed)

Peter Y.L. Eng
Chairman of the Board
and Chief Executive Officer

Michael Chan (signed)

Michael Chan
President

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Allied Hotel Properties Inc. have been prepared by management and approved by the Board of Directors. Management is responsible for the preparation and presentation of the information contained in the consolidated financial statements and other sections of the annual report. The Company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors ensures that management fulfills its responsibility for financial reporting and internal control through the Audit Committee. This committee reviews the consolidated financial statements and reports to the Board of Directors.

The Audit Committee meets with the external auditors, without management present at the election of the auditors, to discuss the results of the audit, the adequacy of internal accounting controls and financial reporting matters.

The Company's independent auditors, KPMG LLP, have been appointed by the shareholders to express their professional opinion on the fairness of the consolidated financial statements. Their report follows.

Michael Chan (signed)

Michael Chan
President

John R. Ellen (signed)

John R. Ellen, CA
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Allied Hotel Properties Inc. as at December 31, 2003 and 2002 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

March 5, 2004, except as to notes 6 and 7, which are as of April 19, 2004

ALLIED HOTEL PROPERTIES INC.

Consolidated Balance Sheets

December 31, 2003 and 2002
(in thousands of dollars)

	2003	2002
Assets		
Current assets:		
Accounts receivable	\$ 1,983	\$ 1,740
Inventories	453	448
Prepaid expenses	759	628
Future income taxes (note 15)	98	356
	3,293	3,172
Income-producing properties (note 4)	107,990	110,676
Investment (note 5)	2,190	2,577
Deferred costs, net of amortization	324	386
Future income taxes (note 15)	3,227	2,645
	\$ 117,024	\$ 119,456
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 9)	\$ 2,412	\$ 2,092
Demand loan (note 6)	3,000	-
Accounts payable and accrued liabilities	12,369	11,995
Deferred revenue	266	267
Mortgage payable (note 7)	17,140	20,605
Long-term debt (note 11)	486	2,183
Due to related parties (note 8)	5,306	1,019
Capital lease obligation (note 10)	266	386
Long-term demand loans (note 9)	71,854	71,788
Deferred gain	-	4,222
	113,099	114,557
Deferred revenue	1,842	2,029
Capital lease obligation (note 10)	216	292
Long-term debt (note 11)	2,663	1,818
	117,820	118,696
Shareholders' equity:		
Share capital (note 12)	29,868	29,868
Deficit	(30,664)	(29,108)
	(796)	760
	\$ 117,024	\$ 119,456

Future operations (note 1)

Commitments and contingencies (notes 5 and 18)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Peter Y.L. Eng (signed) Director
Peter Y.L. Eng

Michael Chan (signed) Director
Michael Chan

ALLIED HOTEL PROPERTIES INC.

Consolidated Statements of Operations

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

	2003	2002
Revenues:		
Rooms	\$ 27,403	\$ 31,488
Food and beverage	15,226	16,314
Other	4,383	4,730
	47,012	52,532
Cost of sales:		
Rooms	9,560	10,128
Food and beverage	12,948	13,853
Other	1,518	1,645
	24,026	25,626
Gross profit	22,986	26,906
Operating expenses:		
Selling, general and administrative (note 17)	15,745	16,360
Management fees (note 17)	729	1,012
Taxes and insurance	3,847	3,574
Depreciation and amortization	3,251	3,392
	23,572	24,338
Operating (loss) income	(586)	2,568
Other expenses (income):		
Interest on demand loans and debt	5,839	5,660
Other interest (note 17)	962	845
Equity in loss (income) of investee	74	(264)
Gain on sale of income-producing property (note 13)	(4,913)	-
Settlement of management agreement (note 14)	(740)	-
Provision for diminution in value of income-producing property (note 4)	-	5,000
	1,222	11,241
Loss before income taxes and non-controlling interest	1,808	8,673
Income taxes (recovery):		
Current	72	83
Future (note 15)	(324)	1,638
	(252)	1,721
Loss before non-controlling interest	1,556	10,394
Non-controlling interest (note 2(n))	-	(819)
Loss for the year	\$ 1,556	\$ 9,575
Basic and diluted loss per share (note 2(k))	\$ 0.01	\$ 0.09

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Consolidated Statements of Deficit

Years ended December 31, 2003 and 2002
(in thousands of dollars)

	2003		2002	
Deficit, beginning of year	\$	29,108	\$	19,533
Loss for the year		1,556		9,575
Deficit, end of year	\$	30,664	\$	29,108

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002

(in thousands of dollars)

	2003	2002
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (1,556)	\$ (9,575)
Items not involving cash:		
Depreciation and amortization	3,251	3,392
Future income taxes	(324)	1,638
Equity in loss (income) of investee	74	(264)
Amortization of deferred revenue	(188)	(170)
Gain on sale of income-producing property	(4,913)	-
Unrealized foreign exchange gain	(363)	-
Provision for diminution in value of income-producing property	-	5,000
Non-controlling interest	-	(819)
Funds from operations	(4,019)	(798)
Changes in non-cash operating working capital (note 16)	(5)	(301)
	(4,024)	(1,099)
Investments:		
Additions to income-producing properties	(268)	(902)
Net proceeds from sale of income-producing property	692	2,730
Distribution from equity accounted investee	313	96
Increase in deferred costs	-	(30)
	737	1,894
Financing:		
Proceeds from demand loan	3,000	-
Proceeds from long-term demand loans	3,000	-
Principal repayments on long-term debt	(490)	(544)
Principal repayments on long-term demand loans	(2,933)	(2,767)
Principal repayments on mortgage payable	(3,465)	(450)
Increase in due to related parties	4,287	1,019
Repayment of obligations under capital leases	(432)	(396)
Decrease in due from affiliated company	-	72
	2,967	(3,066)
Decrease in cash and cash equivalents	(320)	(2,271)
Cash and cash equivalents, beginning of year	(2,092)	179
Cash and cash equivalents, end of year	\$ (2,412)	\$ (2,092)

Cash and cash equivalents are defined as cash less bank indebtedness.

Supplementary information (note 16)

See accompanying notes to consolidated financial statements.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

1. Future operations:

Allied Hotel Properties Inc. (the "Company") was incorporated in 1982. The primary business activity of the Company is hotel and real estate acquisition, holding and management.

The application of the going concern basis of presentation in accordance with Canadian generally accepted accounting principles assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These financial statements have been prepared on the going concern basis notwithstanding conditions which cast doubt on the Company's ability to continue in such a manner. At December 31, 2003 and 2002, the Company had a significant working capital deficiency. In addition, the Company has experienced losses and negative cash flow from operations in 2003 and 2002. Further, based on management's current projections, the Company will likely experience a significant cash flow deficiency in the 2004 fiscal year.

The Company is subject to certain debt service ratio ("DSR") and other covenants pertaining to long-term demand loans. At December 31, 2003 the Company was in breach of certain of its covenants (see note 9). The Company's lenders are aware of these breaches. Further, based on management's current projections, the Company believes it is unlikely that it will be in compliance throughout 2004 with the DSR covenant applicable to \$59,575 of long-term demand loans, unless it is modified. Although the Company expects the breached covenants to be modified, if they are not, such violations could result in a requirement to immediately repay a portion of the applicable long-term demand loans sufficient to bring the Company into compliance with the covenants, to sell certain income-producing properties, or to take other measures as determined by the lenders.

Although the Company's majority shareholder has provided a pledge of continued financial support to the Company, there is no certainty such financial support will be sufficient to permit the Company to meet its liabilities and commitments as they become payable.

If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

2. Significant accounting policies:

(a) General:

The Company's accounting policies and its standards of financial disclosure are in accordance with Canadian generally accepted accounting principles and are substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

2. Significant accounting policies (continued):

(b) Basis of presentation:

The consolidated financial statements include the accounts and results of operations of the Company; its principal wholly-owned subsidiaries; Allied Don Valley Hotel Inc. ("ADVHI"); Harbourview Towers Enterprises Ltd. ("Harbourview"); Chateau Lacombe Hotel Ltd. ("CLHL"); and its 62% interest in Vancouver Airport Conference Resort Ltd. ("VACR"). All material intercompany transactions and balances have been eliminated.

Effective February 28, 2002, the Company sold its remaining one-third interest in the Holiday Inn Vancouver Downtown Hotel. The Company's interest in the results of the operations for the period from January 1, 2002 to February 28, 2002 has been accounted for using the equity method.

(c) Cash equivalents:

The Company considers all highly liquid investments with terms to maturity of three months or less when acquired to be cash equivalents.

(d) Inventories:

Inventories, which consist of food, beverage and supplies, are valued at the lower of cost, as determined on a first in, first out basis, and replacement cost.

(e) Income-producing properties:

Land, buildings, furniture, fixtures and equipment and equipment under capital lease are carried at cost less accumulated depreciation and provision for diminution in value or, effective January 1, 2003, impairment loss (note 3). An impairment loss is recognized when the carrying amount of a property is not recoverable and exceeds its fair market value. Depreciation is provided over the estimated useful lives of the assets, commencing the date the assets are available for use, as follows:

Asset	Basis	Estimated useful life
Buildings	Sinking fund	35 - 40 years
Furniture, fixtures and equipment	Straight-line	3 - 5 years
Equipment under capital lease	Straight-line	3 - 5 years

Under the sinking fund method, an annually increasing amount consisting of a fixed annual sum together with interest compounded at a rate of 5% per annum is charged to income over the estimated useful life of the building.

(f) Investment:

The Company's investment in entities subject to significant influence are accounted for in these financial statements by the equity method. Under the equity method, the original cost of the investment is adjusted for the Company's share of post-acquisition earnings or losses, less dividends.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

2. Significant accounting policies (continued):

(g) Deferred costs:

Deferred license and franchise fees relate to application fees paid to the franchisor of certain hotel properties. These fees are being amortized on a straight-line basis over the terms of the franchise agreements.

(h) Deferred revenue and revenue recognition:

Revenues from hotel and parking operations are recognized when services are provided. Franchise enhancement fees received from the franchisor are deferred and amortized over the term of the related franchise agreement. Revenues received in advance of satisfaction of these criteria are deferred until future periods.

(i) Foreign currency:

Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Foreign exchange gains and losses are included in income.

(j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the recognized amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In determining estimates of recoverable amounts and fair values for its income-producing properties, the Company relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events.

By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the carrying amounts could change and, potentially, by a material amount.

(k) Per share information:

Basic and diluted per share amounts have been calculated based on the weighted average number of shares outstanding during the year, being 106,327,268 common shares for both 2003 and 2002.

(l) Statements of cash flows:

The Company uses the indirect method of reporting cash flows, under which the net cash flow from operating activities is reported by adjusting net loss for the effects of non-cash items and changes in non-cash operating working capital balances.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(in thousands of dollars, except per share amounts)

2. Significant accounting policies (continued):

(m) Future income taxes:

The Company uses the asset and liability method of accounting for incomes taxes. Under such method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantive enactment date.

(n) Non-controlling interest:

At December 31, 2003 and 2002, the share of VACR losses attributable to the non-controlling interests exceeded their investment. All the excess and further losses applicable to the non-controlling interests have been allocated to and recorded by the Company, as the non-controlling interests have not guaranteed obligations nor committed to further financial support of VACR. Subsequent earnings of VACR will be allocated entirely to the Company until such previously absorbed losses are recovered. As at December 31, 2003, the Company has recorded \$2,621 (2002 - \$1,843) of losses otherwise attributable to non-controlling interests.

(o) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

3. Change in accounting policy:

Effective January 1, 2003 the Company prospectively adopted the provisions of Section 3063 of The Canadian Institute of Chartered Accountants ("CICA") Handbook, dealing with Impairment of Long-lived Assets ("Section 3063"). Under Section 3063 an impairment loss should be recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The Company determined, on adoption, that the carrying value of its long-lived assets did not exceed their recoverable amount and, consequently, the implementation of this new standard had no effect on the financial statements for the year ended December 31, 2003.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

4. Income-producing properties:

				2003
	Cost	Accumulated depreciation		Net book value
Land	\$ 36,541	\$ -	\$	36,541
Buildings	83,534	14,024		69,510
Furniture, fixtures and equipment	11,428	9,880		1,547
Equipment under capital lease	1,589	1,198		392
	\$ 133,092	\$ 25,102	\$	107,990

				2002
	Cost	Accumulated depreciation		Net book value
Land	\$ 36,541	\$ -	\$	36,541
Buildings	83,570	13,017		70,553
Furniture, fixtures and equipment	12,755	9,601		3,154
Equipment under capital lease	2,330	1,902		428
	\$ 135,196	\$ 24,520	\$	110,676

For the year ended December 31, 2002, the Company recorded a provision for diminution in the value of an income-producing property of \$5,000.

5. Investment:

The investment represents the Company's interest in the Delta Vancouver Airport Hotel and the adjacent Lysander Office Building (collectively the "Vancouver Airport Property").

The Company's investment and advances comprised the following:

	% interest	2003	2002
Vancouver Airport Property:	26.67% (2002 – 26.67%)		
Opening investment and advances		\$ 2,577	\$ 2,433
Share of (loss) earnings		(74)	239
Distributions		(313)	(95)
Closing investment and advances		\$ 2,190	\$ 2,577

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(in thousands of dollars, except per share amounts)

5. Investment (continued):

Summarized information of the Vancouver Airport Property is as follows:

	2003	2002
Current assets	\$ 593	\$ 392
Income-producing property	32,234	33,169
Other assets	2,032	3,720
	\$ 34,859	\$ 37,281
Long-term demand loans	\$ 29,093	\$ 30,241
Notes payable	5,500	5,500
Other current liabilities	1,220	558
(Deficit) equity	(954)	982
	\$ 34,859	\$ 37,281
Revenue	\$ 5,118	\$ 5,200
Expenses	5,397	3,889
Net (loss) earnings	\$ (279)	\$ 1,311

The Company has unconditionally guaranteed one of the long-term demand loans of the Vancouver Airport Property, to a maximum amount of \$3,475, and has provided a proportionate liability debt service agreement as security for all of the Vancouver Airport Property's long-term demand loans.

The Company would be required to perform under the guarantee if the lender demanded accelerated or immediate repayment of amounts due and the guaranteed party was unable to meet the demands. The maximum payment the Company could be required to make under the guarantee is equal to \$3,475. The Company would be required to perform under the debt service agreement if the Vancouver Airport Property was unable to make regular monthly contractual payments of amounts due. The maximum payment the Company could be required to make under the debt service agreement is equal to its proportionate interest in the Vancouver Airport Property, 26.67%, multiplied by the cumulative shortfall of amounts paid to contractual debt service payments due. There are no recourse provisions that would enable the Company to recover amounts paid from other parties, and the Company does not hold or have access to any collateral to be applied against amounts paid. The Company expects the guarantee and the debt service agreement to be in effect until the related indebtedness is paid in full or to a sufficient extent that the lender permits release.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(in thousands of dollars, except per share amounts)

6. Demand loan:

	2003	2002
Demand loan bearing interest at prime plus 2% per annum, with interest only payable monthly in arrears, and principal due April 1, 2004.	\$ 3,000	\$ -

The demand loan is secured by a mortgage of \$3,000 creating a second fixed financial charge over certain income-producing property; a general security agreement; assignment of rents, and guarantees executed by the Company, Allied Holdings Ltd. ("Holdings") and a significant shareholder of Holdings, limited to \$3,000 plus interest. Holdings is the Company's parent company.

Effective April 1, 2004 the Company entered into an agreement with the lender of the \$3,000 demand loan to provide a new demand loan facility (the "new facility") of \$7,750. An amount of \$3,000 of this new facility was used to repay the existing demand loan and a further \$3,994 was advanced to the lender of the mortgage payable (note 7) as part of a refinancing of that facility. Interest on the new facility is payable monthly at a rate of prime plus 2.5% per annum, with the principal due April 1, 2007, or earlier under certain conditions in the facility and subject to the lender's right to commence amortization at any time.

7. Mortgage payable:

	2003	2002
Mortgage payable bearing interest at 6.8% (2002 - 6.625%) per annum, repayable in blended monthly instalments of \$132 (2002 - \$153), and due April 1, 2004.	\$ 17,140	\$ 20,605

The mortgage payable is secured by a mortgage in the amount of \$22,375 creating a first fixed financial charge over an income-producing property, assignment of rents, and guarantees of the Company and Holdings.

Effective April 1, 2004 the Company entered into an agreement with the lender to refinance \$13,000, repayable in blended monthly instalments of \$ 101, bearing interest at a rate of 6.8% per annum for the first year and 4.25% above one-year Canadian bond yields for the second year, with the principal due April 1, 2006.

Taking into account the refinancing referred to above, principal repayments over the next three years are as follows:

2004	\$ 4,369
2005	363
2006	12,408

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

8. Due to related parties:

	2003	2002
Holdings	\$ 4,428	\$ 764
Minority shareholders of VACR	600	255
Vancouver Airport Property	278	-
	\$ 5,306	\$ 1,019

The amount due to Holdings is unsecured, due on demand and bears interest at prime plus 0.75% per annum.

The amounts due to minority shareholders of VACR are unsecured, due on demand and bear interest at prime plus 3.0% per annum.

The amount due to Vancouver Airport Property is unsecured, due on demand and bears interest at prime plus 0.75% per annum.

9. Long-term demand loans:

	2003	2002
Demand loans repayable in equal monthly blended instalments of principal and interest aggregating \$478 (2002 - \$483) and fully amortized in 2018.	\$ 59,575	\$ 62,133
Demand loan bearing interest at 9% per annum, repayable in blended monthly payments of principal and interest of \$90 (2002 - \$90), due in 2006.	9,429	9,655
Demand loan bearing interest at prime plus 2.5%, with equal monthly installments of principal of \$25 and interest on the declining balance, due May 31, 2004.	2,850	-
	\$ 71,854	\$ 71,788

Interest on the floating rate demand loans of \$59,575 is calculated, at the Company's option, at either a rate ranging from the bank's prime rate plus 0.75% to 1% per annum or a rate based on the bank's fixed cost of funds plus 2.25% to 2.50% per annum.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(in thousands of dollars, except per share amounts)

9. Long-term demand loans (continued):

The \$59,575 floating rate demand loans are secured by mortgages of \$120,000 creating a first fixed financial charge over two of the Company's income-producing properties; a mortgage of \$24,000 creating a second fixed financial charge over a third income-producing property; assignment of rents; unlimited guarantees, debt service agreement and general security agreement executed by the Company; a debt service agreement executed by Holdings; a guarantee executed by Holdings limited to \$81,784 of the indebtedness; personal guarantees limited to \$2,088 executed by two significant shareholders of Holdings; and a personal guarantee limited to \$13,500 executed by a significant shareholder of Holdings.

Under the terms of the facility letters governing the Company's \$59,575 floating rate demand loans, the earnings before interest, taxes, depreciation, and amortization ("EBITDA") of three hotels is required to be not less than 1.20 times debt service for any twelve month period ending on or after October 31, 2003. At December 31, 2003 the Company was in breach of this covenant and based on management's current projections, the Company believes it is unlikely that it will be in compliance with this covenant throughout the 2004 fiscal year.

The \$2,850 floating rate demand loan and the fixed rate demand loan are secured by a mortgage aggregating \$13,000 creating a first fixed financial charge over certain income-producing properties; assignment of rents; a guarantee executed by the Company; and a guarantee by Holdings.

Under the terms of the facility letter governing these demand loans, as amended, the EBITDA of the hotel operated by CLHL is required to be not less than 1.2 times debt service for the twelve month period ended December 31, 2003, 1.25 times debt service for the twelve month period ending December 31, 2004 and 1.3 times debt service for the twelve month period ending December 31, 2005. Further, CLHL is required to maintain a debt to tangible net worth ratio, as defined, of 2.5 to 1. Prior to amendments to the original facility letter, CLHL was in violation of both covenants, however, as amended, CLHL is in compliance with the debt to tangible net worth covenant. Based on management's current projections, the Company believes CLHL will be in compliance with these covenants at December 31, 2004, the next measurement date.

The Company has available \$700 in overdraft credit facilities which bear interest at prime plus 0.75% are repayable on demand, and are secured on the same terms as the long-term demand loans. In addition, the Company has available \$4,000 in overdraft credit facilities which bear interest at prime plus 1%, are due on demand, and are secured on the same terms as the \$59,575 long-term demand loans. At December 31, 2003, the Company had utilized \$3,960 of this facility.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

9. Long-term demand loans (continued):

Notwithstanding the classification of long-term demand loans as a current liability, the Company continues to make monthly repayments of interest and principal, based on amortization schedules extending beyond one year. Assuming lenders do not demand immediate repayment of long-term demand loans, the Company anticipates making the following principal repayments over the next five years and thereafter:

2004	\$	6,133
2005		3,455
2006		12,257
2007		3,505
2008		3,677
Thereafter		42,827
	\$	71,854

10. Capital lease obligation:

The future minimum lease payments under capital lease obligations are as follows:

2004	\$	295
2005		110
2006		121
Total minimum lease payments		526
Amount representing interest ranging from 7.3% to 13.8%		44
		482
Current portion		266
	\$	216

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(in thousands of dollars, except per share amounts)

11. Long-term debt:

	2003	2002
Note payable in the amount of \$1,331 (US\$1,027) (2002 - \$1,985 (US\$1,246)) bearing interest at 10% per annum and secured by a guarantee by Holdings. Equal principal payments of US\$18 (2002 - US\$18) and interest on the unpaid portion are due monthly, with the balance due in 2008.	\$ 1,331	\$ 1,986
Notes payable of which \$1,283 (2002 - \$1,438) is non-interest bearing and the remainder bears interest at 9% per annum. The notes require monthly principal and interest payments aggregating \$20, due in 2012.	1,818	2,015
	3,149	4,001
Current portion	486	2,183
	\$ 2,663	\$ 1,818

Principal repayments over the next five years and thereafter are as follows:

2004	\$ 486
2005	491
2006	496
2007	501
2008	411
Thereafter	764
	\$ 3,149

12. Share capital:

(a) Authorized:

The authorized capital of the Company at December 31, 2003 and 2002 consisted of an unlimited number of common shares without par value.

(b) Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2003 and 2002	106,327,268	\$ 29,868

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

12. Share capital (continued):

(c) Stock Options:

An amount of 10,000,000 common shares have been reserved for issuance under the terms of a stock option plan (the "Plan"). The terms of options granted under the Plan may be fixed by the board of directors at the time such options are granted. At December 31, 2003 and 2002, there were no options outstanding to acquire common shares in the Company.

13. Gain on sale of income-producing property:

Effective February 28, 2002, the Company sold its remaining one-third interest in the Holiday Inn Vancouver Downtown Hotel (the "Holiday Inn"). As at December 31, 2002, the Company had not received all sale proceeds and continued to guarantee the bank indebtedness of the Holiday Inn. Consequently, the Company had not recognized a gain or loss on sale of its investment in the Holiday Inn as at December 31, 2002.

During 2003 the Company received the balance of the sale proceeds and was released from all obligations pertaining to bank indebtedness of the Holiday Inn, and a gain of \$4,913 was recorded in these financial statements, calculated as follows:

Proceeds	\$	3,926
Negative carrying value of investment		1,492
		5,418
Commissions and other selling expenses		505
Gain on sale of income-producing property	\$	4,913

14. Settlement of management agreement:

In 2001 the Company entered into a management agreement (the "Initial Agreement") with a third party manager to manage one of its hotel properties. The Initial Agreement had an expiry date of December 31, 2015 and contained, inter alia, a minimum EBITDA guarantee (the "NOI Guarantee"). In 2002, the net income from the hotel covered by the Initial Agreement was below the amount of the NOI Guarantee.

Effective September 30, 2003 the Company entered into an Amended and Restated Management Agreement and certain ancillary agreements (collectively the "Amended Agreements") which had the effect of amending certain key terms of the Initial Agreement. In return for waiving any rights to claim under the NOI Guarantee, the Company received cash, preferred shares and a reversal of all accrued and unpaid management fees for 2002 and 2003. The Company subsequently terminated the Amended Agreements on October 30, 2003.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

14. Settlement of management agreement (continued):

After deducting legal and other professional fees related to the Amended Agreements, the Company realized a net gain of \$740 which has been recognized in these financial statements. Due to uncertainty of realization of the redemption value of preferred shares, no value has been ascribed to them in the calculation of the gain on settlement of management agreement.

15. Income taxes:

- (a) Income tax expense, including current and future portions, varies from the amounts that would be computed by applying the basic federal and provincial income tax rates aggregating 37.26% (2002 – 39.62%) to loss before income taxes and non-controlling interest, as shown in the following table:

	2003	2002
Basic rate applied to loss before income taxes and non-controlling interest	\$ (674)	\$ (3,436)
Change in valuation allowance	1,206	1,996
Permanent difference relating to gain on sale of income-producing property	(920)	(23)
Recognition of previously unrecorded temporary differences	149	2,786
Effect of income tax rate changes	(104)	315
Large corporations tax	72	83
Other permanent differences	19	-
Income tax (recovery) expense	\$ (252)	\$ 1,721

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

15. Income taxes (continued):

- (b) The tax effects of temporary differences that give rise to significant portions of future tax assets and future tax liabilities at December 31, 2003 are presented below:

	2003	2002
Future tax assets:		
Non-capital loss carry forwards	\$ 7,095	\$ 5,677
Share issue and financing costs	994	993
Income-producing properties	6,814	5,792
Investments and distributions receivable	139	739
Deferred revenues	711	1,479
Capital lease obligations	113	116
Other	15	-
Long-term obligations	-	65
	15,881	14,861
Future tax liabilities:		
Deferred costs	(53)	(23)
Other	(20)	(33)
Capital lease obligation	(99)	-
Long-term debt	(26)	-
Investments	-	(162)
Accounts payable	-	(490)
	(198)	(708)
	15,683	14,153
Less: valuation allowance	(12,358)	(11,152)
Net future tax assets	\$ 3,325	\$ 3,001
Classified as:		
Future income tax assets		
Current	\$ 98	\$ 356
Non-current	3,227	2,645
	\$ 3,325	\$ 3,001

- (c) At December 31, 2003, the Company has non-capital losses of approximately \$20,020 (2002 - \$16,143) able to be carried forward to reduce income taxes otherwise payable until the year ending December 31, 2009. No future income tax benefit on \$18,015 (2002 - \$10,286) of these losses, or temporary differences on assets and liabilities of the Company of approximately \$16,895 (2002 - \$21,423), has been recognized in the financial statements.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(in thousands of dollars, except per share amounts)

16. Supplementary information:

Changes in non-cash operating working capital consist of the following:

	2003	2002
Accounts receivable	\$ (243)	\$ 541
Inventories	(5)	34
Prepaid expenses	(131)	(122)
Accounts payable and accrued liabilities	374	(754)
	\$ (5)	\$ (301)

Supplementary disclosures related to the statements of cash flows consist of the following:

	2003	2002
Supplementary information:		
Interest paid	\$ 6,517	\$ 6,279
Taxes paid	75	16
Non-cash investing and financing activities:		
Acquisition of equipment under capital lease	236	73

17. Related party transactions:

In addition to note 8, the Company had the following transactions with related parties during the year:

	2003	2002
Management fee income:		
Vancouver Airport Property Holdings	\$ 87 101	\$ 84 99
Rental income:		
Holdings	330	137
Consulting fees:		
Director	69	101
Rent expense:		
New World Equities Inc. ("New World")	63	61
Interest expense:		
Holdings	131	-

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002
(in thousands of dollars, except per share amounts)

17. Related party transactions (continued):

New World is related by virtue of common control by Holdings, the ultimate parent company.

Interest expense is included in other interest. Consulting fees and rent expense are recorded as selling, general and administrative expense. Management fee income and rental income are recorded as other income.

Rooms, food and beverage and other revenues include revenue totaling \$259 from a company in which a director of the Company is a director and major shareholder. Of this amount, \$94 is included in accounts receivable at December 31, 2003.

18. Commitments and contingencies:

- (a) The Company has entered into franchise agreements to operate four hotels under international brands. Under these agreements the Company is charged certain amounts based on a percentage of gross room revenue, as defined, for royalties, marketing and reservations. In addition, the Company is charged a monthly fee per room for other services provided.
- (b) The Company has entered into a management agreement with a third party manager, to operate an income-producing property for management fees of 1.5% of gross revenue of the property. This agreement expires June 15, 2004.

19. Financial instruments:

(a) Fair value:

The Company's financial instruments include accounts receivable, bank indebtedness, demand loan, accounts payable and accrued liabilities, mortgage payable, long-term debt, due to related parties, capital lease obligation and long-term demand loans. The carrying values of accounts receivable, bank indebtedness, demand loan, accounts payable and accrued liabilities, mortgage payable and capital lease obligation approximate their fair values due to the short-term nature of these financial assets and liabilities.

The fair value of long-term debt and long-term demand loans is based on management estimates for mortgages which are determined by discounting cash flows required under the mortgages at the interest rate currently estimated to be available for loans with similar terms. Based on these estimates, the fair values of the Company's long-term debt and long-term demand loans as at December 31, 2003 are not significantly different than their carrying values.

The fair value of the amount due to related parties has not been determined as the Company does not believe that it is practicable to determine such fair value with sufficient reliability due to the related party nature of the asset and the absence of a readily available secondary market for such financial instruments.

ALLIED HOTEL PROPERTIES INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(in thousands of dollars, except per share amounts)

19. Financial instruments (continued):

(b) Interest rate risk:

As described in notes 6, 8 and 9, the Company's demand loan, due to related parties and long-term demand loans bear interest at floating rates. Further, as disclosed in note 7, a mortgage payable matures in 2004. Fluctuations in interest rates will impact the cost of financing incurred in the future.

(c) Credit risk:

Due to the nature of the hotel business, the Company does not face any significant credit risk and there are no concentrations of credit risk.

20. Segment disclosures:

Management has determined that the Company's operating segments consist of the various hotel operations which form a single reportable segment, hotel operations.

QUARTERLY REPORT

FORM 51-901F

ISSUER DETAILS NAME OF ISSUER		FOR QUARTER ENDED		DATE OF REPORT Y M D	
Allied Hotel Properties Inc.		December 31, 2003		04 05 11	
ISSUER'S ADDRESS					
Suite 300 – 515 West Pender Street					
CITY	PROVINCE	POSTAL CODE	ISSUER FAX NO.	ISSUER TELEPHONE NO.	
Vancouver	B.C.	V6B 6H5	604-682-8131	604-669-5335	
CONTACT PERSON		CONTACT'S POSITION		CONTACT TELEPHONE NO.	
John R. Ellen, C.A.		Chief Financial Officer		604-682-2533 x 160	
CONTACT EMAIL ADDRESS		WEB SITE ADDRESS			
john_ellen@alliedhotels.com		www.alliedhotels.com			

CERTIFICATE

The three schedules required to complete this Quarterly Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Quarterly Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE OF REPORT Y M D
"Peter Y.L. Eng" (signed)	Peter Y.L. Eng	04 05 11
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE OF REPORT Y M D
"Michael Chan" (signed)	Michael Chan	04 05 11

**SCHEDULE B
SUPPLEMENTARY INFORMATION**

The supplementary information set out below is to be provided when not included in the Company's audited consolidated financial statements contained in Schedule A.

1. For the current fiscal year-to-date:

Breakdown of General & Administrative Expenses
for the year ended December 31, 2003

	2 0 0 3
	\$ ('000)
Administrative salaries	996
Director's fees	28
General	(210)
Professional fees	544
Bank loan fees	817
Capital tax	33
Travel and entertainment	69
Hotel administration	4,197
Maintenance	3,033
Sales and advertising	3,774
Utilities	2,464
	<hr/>
	\$ 15,745

For the twelve month period ended December 31, 2003, the aggregate amount of expenditures made to parties not at arm's length was \$263.

2. For the quarter under review:

a) Summary of securities issued during the quarter:

No securities were issued during the quarter.

b) Summary of options granted during the quarter:

No options were granted during the quarter.

No shares were held in escrow or subject to pooling agreement at the end of the quarter.

SCHEDULE B
SUPPLEMENTARY INFORMATION (CONT'D)

3. *As at the end of the quarter:*

d) List of directors and officers:

Directors:

Michael Chan
Anthony Eng
Peter Eng
Dato' Ng Eng Tee
Tuan Syed Abu Bakar Bin Syed Mohsin Almohdzar
Eric Woo

Effective April 26, 2004, Francis A. Wong was appointed as a Director of the Company.

Officers:

Chief Executive Officer – Peter Eng
President – Michael Chan
Vice-President, Chief Financial Officer and Secretary – John R. Ellen
Vice-President, Development and Portfolio Strategy – Sam Ng
Vice-President, Hotel Operations – Nash Rajan

SCHEDULE C

MANAGEMENT'S DISCUSSION AND ANALYSIS

VISION, CORE BUSINESS AND STRATEGY

The Company is a hotel ownership and management company focused on first class hotels in major urban centres. Although the Company strives to maximize returns in the provision of hotel and hospitality services within the hotel portfolio, our main responsibility is to our shareholders in regard to the maximization of share value.

The Company has recently pursued a strategy of internally managing the hotel portfolio in a prudent manner in light of recent local, national and international events that have had a negative impact on hotel performance over the last few years.

The Company ensures it has the capability to successfully carry out its chosen strategy through a variety of means. Senior management has many years experience in the hospitality and finance sectors. Hotels are branded with internationally recognized brands which bring with them first class reservation systems. All of the Company's properties are situated in prime urban markets.

As discussed below, under liquidity and capital resources, and as outlined in note 1 to the consolidated financial statements, management expects the Company to experience a significant cash flow deficiency in 2004. Although the Company's majority shareholder has provided a pledge of continued financial support to the Company, there is no certainty such financial support will be sufficient to permit the Company to meet its liabilities and commitments as they become payable.

BASIS OF PRESENTATION

The following discussion and analysis should be read in conjunction with the consolidated financial statements of the Company for the years ended December 31, 2003 and 2002 and the notes pertaining thereto.

The consolidated financial statements include the results of the Company's three wholly owned hotel properties plus one property in which the Company has a 62% interest. Under Canadian generally accepted accounting principles ("GAAP"), 100% of the income and expenses of the 62%-owned property would be disclosed in the statement of operations, with the 38% of the net income or loss attributable to the non-controlling shareholders being adjusted as a single line entry immediately before income or loss for the year, with a corresponding entry in the non-current liability section of the balance sheet. Towards the end of 2002 the cumulative losses from this property reached a level where the investment of the non-controlling interest had been fully eliminated, and all subsequent losses in 2002 and 2003 were recorded by the Company, with no adjustment for the non-controlling interest. For the year ended December 31, 2003 the Company recognized losses of \$777 otherwise attributable to non-controlling interests (2002 - \$1,843).

Effective February 28, 2002, the Company sold its remaining one-third interest in the Holiday Inn Vancouver Downtown Hotel (the "Holiday Inn"). The Company's one-third interest in the Holiday Inn for the period up to February 28, 2002 is accounted for using the equity method in the consolidated financial statements of the Company for the year ended December 31, 2002. At December 31, 2002 a deferred gain on sale of \$4.2 million was recognized in the balance sheet.

Effective January 1, 2003 the Company prospectively adopted the provisions of Section 3063 of The Canadian Institute of Chartered Accountants ("CICA") Handbook, dealing with impairment of long-lived assets. Under Section 3063 an impairment loss should be recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair market value. Implementation of Section 3063 had no effect on the financial statements for the year ended December 31, 2003.

RESULTS OF OPERATIONS

Operating revenues decreased 10% to \$47.0 million for the year ended December 31, 2003 from \$52.5 million for the year ended December 31, 2002. The single most significant factor contributing to this decrease in revenues was the advent of severe acute respiratory syndrome ("SARS"), which was first detected in the 1st quarter of 2003, but which had a devastating negative impact on the hospitality industry in the 2nd and 3rd quarters. The Company's Crowne Plaza property in Toronto, Ontario experienced a 19% decrease in revenues in 2003 compared to 2002. Other uncontrollable events, all of which had a negative impact on the hospitality industry in 2003, included the Iraq war, forest fires in B.C., mad cow disease in Alberta, and a continuing general economic downturn. As a result of these factors the Company's two other Crowne Plaza hotels, located in Edmonton, Alberta and Vancouver, B.C. both experienced single digit decreases in revenues in 2003 over 2002.

Room revenues decreased 13.0% to \$27.4 million in 2003. With over 515,000 room nights available across the Company's portfolio, the number of rooms occupied decreased by 21,412 or 4.2 points of occupancy over 2002. The fall in room revenues was caused by a combination of lower occupancy and lower average daily rate ("ADR"), which fell from \$105.97 in 2002 to \$99.43 in 2003, resulting in a decrease in Revenue per available room ("RevPAR") of \$7.92 to \$53.22, this being the key performance measure in the hospitality industry. This decrease in RevPAR in 2003 follows a fall in RevPAR of \$3.59 from 2001 to 2002, reflecting the combined effects of 9/11, SARS and other economic factors outlined above.

Gross profit for 2003 was \$23.0 million, a reduction of \$3.9 million from 2002. On a comparable property basis, gross profit for 2002 was down by \$1.1 million from 2001. This decrease of \$5.0 million over a two year period is indicative of the problems facing the hospitality industry.

Faced with declining revenues and gross profit margins, the hotels have been very proactive in reviewing their cost structures. Selling, general and administrative expenses ("SG&A") decreased 4% in 2003, in addition to a 10% saving in 2002 as a result of cost control measures implemented at the hotels and head office.

Taxes and insurance increased to \$3.8 million for 2003 from \$3.6 million in 2002, with all of the increase in insurance premiums, where rates have spiraled in the last couple of years. In light of the lower net income at each hotel property, the Company has been successful in holding or even reducing property tax expense.

With approximately two-thirds of our debt financed at floating rates, the Company is impacted positively and negatively by changes in prime lending rates. In 2003 the prime lending rate started and ended the year at 4.5%, having peaked at 5% in April before reductions were announced in July and September. Subsequent to the year-end there have been three further reductions, leaving the prime rate at 3.75% as of the date of this report. Total interest expense increased from \$6.5 million in 2002 to \$6.8 million as a result of increased borrowing to finance ongoing losses.

In 2002, the Company sold its remaining one-third interest in the Holiday Inn. In 2003, following the release of the Company as guarantor of debt, and receipt of the balance of sale proceeds, the Company recognized a gain of \$4.9 million. As mentioned above, the Company terminated a management agreement with a third-party manager at one of its hotels, resulting in a gain of \$0.7 million, largely resulting from the reversal of accrued but unpaid management fees.

The loss for the year before non-controlling interest and income taxes and was \$1.8 million compared to a loss of \$8.7 million for the year ended December 31, 2002.

Current and future taxes resulted in a recovery of \$0.3 million in 2003 compared to an expense of \$1.7 million in 2002. The net loss for the year was \$1.6 million compared to a net loss of \$9.6 million for the year ended December 31, 2002.

The Company had a cash deficiency from operations for the year ended December 31, 2003 of \$4.0 million or \$0.04 per share, compared to \$1.1 million of \$0.01 per share in 2002.

FINANCIAL POSITION

Income-Producing Properties

The net book value of income-producing properties at December 31, 2003 was \$108.0 million, compared to \$110.7 million at December 31, 2002. Of this decrease, \$3.2 million represents depreciation, offset by additions of \$0.5 million.

The acquisition of the Company's initial hotel portfolio in April 1998 was, for accounting purposes, treated as a related party transaction. Canadian generally accepted accounting principles require that the properties acquired be reflected in the balance sheet at the book value of the seller. In certain instances this is significantly less than management's estimate of the fair market value of the property.

Investments

At December 31, 2003, the investment of \$2.2 million represents the Company's 26.67% interest in the Delta Vancouver Airport Hotel and adjacent Lysander Office Building, on which a loss of \$0.1 million was recorded during the year (2002 – income \$0.2 million). The Company received cash distributions of \$0.3 million from the investee during the year (2002 - \$0.1 million).

Working Capital

The Company had a net working capital deficiency at December 31, 2003 of \$109.8 million compared to a deficiency of \$111.4 million at December 31, 2002. Excluding debt obligations which are not expected to mature within the next 12 months, long-term debt which has been refinanced subsequent to the year-end and the deferred gain referred to above, the working capital deficiency at December 31, 2003 would have been \$24.3 million, compared to \$18.0 million at December 31, 2002. In the hospitality industry it is common practice for customers to pay by cash or credit card, resulting in relatively low accounts receivable balances. On the other hand, hotel operating supplies and other goods and services are purchased on credit and are more frequently carried on account. At the year-end, the net difference between accounts receivable and accounts payable was \$10.4 million (2002 - \$10.3 million).

Debt

Total third-party debt decreased by a net \$1.3 million, from \$96.4 million at December 31, 2002 to \$95.1 million at December 31, 2003. This decrease represents the normal principal repayments included in the Company's monthly blended payments to its lenders, offset by a new loan of \$3.0 million advanced during the year. This new loan, advanced from an existing lender, was used for general corporate purposes. With the Company recording a loss in 2003, this decrease in debt to third-parties was funded by additional advances from related parties, which increased by \$4.3 million in the year, from \$1.0 million to \$5.3 million.

During the year the Company refinanced debt of \$20.5 million relating to a loan maturing April 1, 2003 on one of its hotel properties. The refinancing was for a period of one year. Subsequent to the year-end the Company again refinanced this debt, now in the amount of \$20.1 million. The term of the new refinancing is for a period of two years.

The Company is subject to certain covenants with respect to portions of its third part debt, and at December 31, 2003 it was in breach of certain of those covenants pertaining to debt service ratios ("DSR"). The Company's lenders are aware of these breaches of the DSR covenant and are working together with the Company to modify the covenants in the short-term and to investigate other ways of ensuring compliance in the near future. As mentioned above, the Company's majority shareholder has provided a pledge of continued financial support to the Company, which support may include advancing funds to enable the Company to reduce third party debt to ensure compliance with DSR covenants.

The Company has unconditionally guaranteed a portion of the indebtedness related to the Lysander Office Building, to a maximum amount of \$3.5 million, in proportion to its 26.67% interest in this property.

Due from / to Affiliated Companies

At December 31, 2002 the Company owed Allied Holdings Ltd. ("Holdings") \$0.8 million and by December 31, 2003 this amount had increased to \$4.4 million. The increase in this loan comprises advances received from Holdings during the year. As noted in the preceding section, the increase in the amount due to related parties during 2003 exactly offsets the gross reduction in debt due to third parties over the same period.

As outlined in note 1 to the consolidated financial statements, based on management's projections, the Company will likely experience a significant cash flow deficiency in the 2004 fiscal year. Holdings has provided a pledge of continued financial support to the Company to bridge this anticipated deficiency.

Liquidity and Capital Resources

The Company's cash flows for 2003 and 2002 are summarized as follows:

	2003	2002	Change
	(thousands of dollars)		
Cash flow used for operations	(4,024)	(1,098)	(2,926)
Cash flow provided by (used for) financing activities	2,968	(3,068)	6,036
Cash flow provided by investing activities	737	1,894	(1,157)
Decrease in cash	(319)	(2,272)	1,953

The Company has normal course requirements for capital to assist in the repayment of the principal portion of debt and to finance capital expenditures in its hotel properties. In the long term these requirements must be funded from operations, from new capital such as equity or increased borrowings, or from the sale of assets. In 2003, operations absorbed \$4.0 million, an increase from the \$1.1 million absorbed in 2002. The sale of assets provided \$0.7 million in 2003, a reduction from \$2.7 million in 2002. The shortfall was funded through advances from related parties and the draw-down of a new loan facility of \$3.0 million.

A total of \$26.8 million (2003 - \$25.6 million) of principal repayments on third-party debt becomes due during 2004. Of this, the Company refinanced \$20.1 million effective April 1, 2004. In addition, the Company has a credit facility of \$4.0 million which was fully utilized at the year-end which must be repaid during 2004. The Company intends to repay this debt from cash flow from operations or further advances from Holdings.

As detailed in note 1 to the consolidated financial statements, and as discussed earlier, management projects the Company will experience a significant cash flow deficiency in 2004. Although Holdings has provided a pledge of continued financial support to the Company, there is no certainty such financial support will be sufficient to permit the Company to meet its liabilities and commitments as they become payable.

The Company does not have any plans for major renovations at any of its properties during 2004.

RISK MANAGEMENT

The Company faces several areas of risk. These are summarized below, along with management's approach to mitigating these risks.

Hospitality Industry

The Company's hotel properties are subject to the normal operating risks common to the hotel industry, including seasonal and cyclical business fluctuations.

Approximately 60% of the Company's annual revenues are generated in the second and third quarters. Management of the individual hotel properties are aware of the seasonal nature of their own markets, and sales initiatives are planned to offset times of low demand as required. These seasonal factors should be considered when reviewing the Company's quarterly operating results. Subsequent to the year-end one of the Company's properties entered into a two year contract with a major airline. While the daily rate for this contract is below the ADR achieved Company wide in 2003, it will increase total occupancy by an estimated 4.3 points and will improve RevPAR and profitability.

The hotel industry has, historically, been subject to significant economic cycles. Industry reports indicate that the hotel industry in Canada is operating in a weak economic environment, although performance indicators suggest a recovery is underway. Such recovery may be delayed due to world events, such as the ongoing situation in Iraq. A stronger market should allow for continued improvements in the occupancy levels and average room rates at the Company's properties. Economic risk can be further mitigated by limiting reliance on one particular market, a policy actively pursued by management through the divestment of interests in two of its five properties in the Greater Vancouver area during 2001.

This time last year the world was learning about SARS for the first time, although no-one could have predicted the devastating effect it would have on the hospitality industry in general, and on the Toronto market in particular. At the time of writing, reports are surfacing from China of a new outbreak of SARS, and it is to be hoped that lessons learned in 2003 will minimize any global impact in 2004.

Interest Rate Risk

Interest rate volatility in the marketplace cannot be predicted with certainty. At December 31, 2000, 75% of the Company's long-term debt was charged interest at rates based on the bank's prime rate, which may be subject to change at short notice. By December 31, 2001 this exposure had been reduced to 65% through the repayment of floating rate loans on sale of assets, and the refinancing of a facility from floating to fixed rate. The split between fixed and floating rate borrowings remained at approximately 35% / 65% at December 31, 2002. During 2003 the Company negotiated a new loan facility of \$3 million, with an interest rate tied to the prime lending rate. As a result, the proportion of third-party debt carrying interest at floating rates had increased to 69% at the end of 2003. Increases in the bank's prime rate would have a negative impact on the Company's future operating results by virtue of higher interest expense. The Company generally has the right to convert floating rate debt to fixed rate debt at its option, which helps mitigate the impact of prospective increases in the bank's prime rate.

Labour Risk

As at December 31, 2003, the Company employed 735 full and part-time employees at its properties, down from 812 at December 31, 2002. Approximately 77% (2002 - 80%) of the Company's employees are represented by labour unions. Labour relations with these unions are governed by four collective agreements which expire at various times between December 31, 2004 and June 30, 2006. During 2003 collective agreements were renewed at three of the Company's four hotel properties.

There can be no assurance that the Company will not experience job action including strikes and / or labour stoppages, or any other type of conflict with unions and employees, which could have a material adverse effect on the Company's business, operating results and financial condition.

The Company believes its labour relations are good and management does not anticipate any events which may significantly impact the day-to-day operations of its hotel properties.

Environmental Risk

Under various federal and provincial laws and regulations, a current or previous owner of real property may be held liable for the costs of removal or remediation of certain hazardous or toxic substances that could be located on, in or under such property. Such laws and regulations may impose liability whether or not the owner knew of, or was responsible for, the presence of the hazardous or toxic substances. The costs of any required remediation or removal of these substances could be material and the liability of an owner as to any property is generally not limited under such laws and regulations and could exceed the property's value and the aggregate assets of the owner.

The presence of hazardous or toxic substances, or the failure to remediate such substances properly, may also adversely affect the owner's ability to sell the property, or to borrow using the property as collateral. In connection with the ownership and operation of its properties the Company could be liable for these remediation costs, as well as other costs such as governmental fines or compensation for personal injury. As a result, the presence, with or without the Company's knowledge, of hazardous or toxic substances at any property owned by the Company

could have an adverse effect on the Company's business, operating results and financial condition.

The Company conducts Phase I environmental assessments and, where indicated, Phase II environmental assessments on any property it is considering acquiring prior to acquisition. The results of these assessments have disclosed no material remediation or other expenditure requirements. Minor mitigation and remediation measures have been performed. The assessments did disclose the presence of asbestos at four properties acquired by the Company. The reports concluded that no remedial action would be required unless renovations were undertaken that would disturb the asbestos. The Company has no plans to renovate the relevant properties at present, and if any renovations are made they will be conducted in compliance with applicable environmental regulations.

Investor Relations

There were no investor relations activities undertaken on behalf of the Company in the quarter.

